



INDIA RESEARCH

Dishman Pharma

Rs144
OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs11.7bn; US \$248m

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Result: Q4FY09

Comment: Yet another strong operating quarter despite slowdown in EM sales

Last report: 29 January 2009 (Price Rs104; Recommendation: Outperformer)

Key financials

As on 31 March	Net sales (Rs m)	Adj. net profit (Rs m)	Adj. EPS (Rs)	% growth	PER (x)
FY08	8,030	837	10.3	1.8	14.0
FY09	10,671	1,467	18.0	75.4	8.1
FY10E	12,696	1,781	21.9	21.4	6.6
FY11E	15,544	2,251	27.7	26.4	5.1

KEY RESULT HIGHLIGHTS

- Dishman's Q4FY09 revenues at Rs2.9bn are ahead of our estimates of Rs2.6bn primarily due to strong performance from Carbogen Amcis which grew by 37% yoy to Rs1.4bn.
- Carbogen Amcis has performed ahead of our estimates during H2'09. Amcis' contract manufacturing site in Switzerland is completely booked till Jan'10 and even the contract research segment is witnessing good traction from new clients like Eisai etc. Dishman is exploring the possibility of shifting some of Amcis' overflow work to Indian facilities subject to client consent.
- Revenues from Dishman's India CRAMS business have grown by 38% to Rs904bn. This performance is fairly impressive given that Dishman has lost ~Rs300mn of Solvay's EM business as the client is in the process of cutting its inventories. Dishman has made up the lost EM business through higher contract research and non-Solvay business. For the year Dishman has done Rs1.7bn of EM sales which is in line with our estimates. EM inventory drawdown is likely to continue through Q1'10 which will lead to flattish sales during FY10 too.
- Contribution from Solvay's Vitamin business is at Rs279m for Q4FY09. Dishman's MM business revenues are estimated at Rs376m. For FY09, Dishman has reported a robust topline growth of 33%.
- EBITDA at Rs781m is ahead of estimates primarily due to strong margins across businesses primarily in the Vitamin business. EBITDA margins have come in 26.3% which is 80bp higher qoq and significantly higher yoy. In absolute terms, EBITDA has grown by 73%yoy.
- Dishman India business EBITDA margins have improved ~800bps yoy to 27.5% due to a higher component of high value contract research revenues as also lower contribution from MM segment.
- Solvay Vitamin business FY09 profits at 28% are surprising. Dishman has indicated that is the consequence of higher royalty income and commencement of sales of a high value Vitamin analogue in the US market

- Carbogen Amcis margins have stayed flat at ~19.5%. With the expected commissioning of Carbogen's high containment (Class III / IV) oncology facility in India, Dishman expects margins to gradually start ticking up. The company is in talks with multiple companies like Astra, Pfizer, Lilly etc for securing contracts for this facility. This facility is expected to be completed by Q2FY10 and should start effectively contributing to business from 2HFY10 onwards with revenues of US\$5-10m in the first full year. We expect this facility to contribute atleast ~\$15mn in sales by FY11. Dishman remains highly optimistic about the revenue generating potential of this facility.
- Dishman's China plant is also ready for commercialization. Dishman is talking to as many as three potential clients including Astra, J&J and GSK for running the plant as a dedicated asset.
- Dishman is also seeking to complete its disinfectant facility over the next 6 months and is looking to realize revenues of Rs2bn over 2-3 years
- The company will go ahead with its plan to set up a formulations facility only upon receiving firm commitments on the offtake from prospective clients.
- On an operational basis, the growth outlook continues to be robust. Dishman has a contract with Astra Zeneca for 14 APIs and that agreement is beginning to get activated. Among other key contracts, the company is very optimistic about the 2 phase III contracts with Astra and Novartis. If commercialized, these could be fairly significant products for Dishman.
- During the quarter, as per the government new guideline on postponement of AS-11 implementation to FY11, Dishman has diverted the forex losses of ~Rs420m to its balance sheet. These losses will be reported under two categories: i) Forex losses made on exposure created when foreign assets were acquired and will be amortized over the life of the assets ii) Translational forex losses recognized under a foreign currency reserve
- Interest costs at Rs178m (87% yoy growth) including Rs450mn of forex loss amortization continue to be high for Dishman given the high leverage.
- Dishman has taken a tax writeback of Rs8m during the quarter. Driven by higher revenues and significantly higher EBITDA margins, PAT at Rs436m is ahead of our estimates of Rs242m
- Dishman's net debt stands at Rs7.2bn of which ~75% is forex debt. This leverage at 1x will continue to impinge on earnings going ahead.
- The management has guided to a 15-20% topline as well as earnings growth in FY10.

□ Valuations and view

Dishman Q4FY09 performance is impressive with above estimate revenues as well as fairly strong operating margins. Dishman's growing traction in the CRAMS business as reflected in the recent contract wins with Astra Zeneca, Solvay etc is very encouraging. Looking forward, we expect things to start looking up even more for Dishman with the enhanced capacity utilization in the new units in Bavla, commercialization of the Chinese plant and the new HiPo facility. We have always been positive on Dishman's business model and believe it is one of the best companies on play the CRAMS opportunity in India. Dishman's India CRAMS business is poised for very strong growth by leveraging the strong relationships it has established with multiple global pharma players over the last few years. On the flip side, Dishman's balance sheet has been getting stretched over the years and that does remain a concern. We maintain our FY10 estimates and introduce our FY11 EPS estimates at Rs27.7 (26.4% yoy growth). At a CMP of Rs144, Dishman trades at 6.6x FY10E. Maintain Outperformer with price target of Rs219(10x FY10E).

Quarterly results

	Q4FY08	FY08	Q1FY09	Q2FY09	Q3FY09	Q4FY09	FY09E	FY10E	FY11E	Comments
Net Sales	2,420	8,030	2,359	2,520	2,822	2,971	10,671	12,696	15,544	Ahead of estimates due strong performance in Carbogen Amcis
Operating Expenses	1,969	6,501	1,696	2,022	2,102	2189	8,009	9,572	11,653	
Cost of Sales	788	4,672	590	856	934	861	5,829	6,759	5,779	
Other Expenses	1181	5,064	1106	1166	1168	1328	6,721	7,896	(353)	
EBITDA	451	1,529	663	498	719	782	2,662	3,124	3,891	Strong margin expansion driven by Vitamins business
<i>EBITDA (%)</i>	<i>18.6</i>	<i>19.0</i>	<i>28.1</i>	<i>19.8</i>	<i>25.5</i>	<i>26.3</i>	<i>24.9</i>	<i>24.6</i>	<i>25.0</i>	
Forex gain		379	-164.5	-310.1	48.9	0	0			Forex losses diverted to balance sheet due to postponement of AS-11 implementation
Other Income	154.0	98	23.2	75.2	0.0	0.0	0	50	50	
Depreciation	167.4	472	144.4	139.3	169.9	175.5	629	723	868	Ahead of estimates
Interest	95.5	305	92.5	86.9	100.9	178.2	459	514	514	Interests costs continue to be high
PBT	342.1	1,229	284.9	37.2	497.4	428.0	1,575	1,936	2,558	
Provision for Taxation	(57.0)	13	8	7	100	(8)	107	155	307	
PAT	399.1	1,216	277	30	398	436	1,467	1,781	2,251	Above estimates driven by higher revenues and strong margin expansion
Adjusted PAT	399.1	837	442	340	349	436	1,467	1,781	2,251	

Source: IDFC-SSKI Research

Segmental Revenue

(Rs m)	Q4FY08	Q1FY09	Q2FY09	Q3FY09	Q4FY09	% yoy growth
MM	292	255	490	632	376	28.6
Dishman CRAMS	657	888	749	780	904	37.6
Others	102					
Carbogen	1,032	937	1,026	1,130	1,412	36.8
Solvay Vit	227	279	255	284	279	23.0
Dishman total	2,310	2,359	2,520	2,822	2,971	28.6

Source: Company, IDFC-SSKI Research

IDFC - SSKI INDIA

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